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STATE FOR NEA/MAG AND NEA/PI

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TAGS: ECON EFIN KDEM MO

SUBJECT: CREATING JOBS OR JUST SKEPTICISM IN MOROCCO

Classified By: Principal Officer Douglas Greene for reasons 1.4 (B) and (D)

¶1. (C) SUMMARY: Moukawalati, the GOM's job creation initiative, offers young entrepreneurs loans, guidance and training to start their own businesses, with the ultimate goal of lowering unemployment. The program has been slow to get off the ground since its launch nearly seven months ago. This is due in part to the large number of actors involved, from Chambers of Commerce to microcredit organizations to banks. In addition, the lack of sufficient risk management mechanisms makes banks wary of lending to program participants, while microcredit associations may not be the ideal partners the government assumes them to be. Skeptics charge that pressure to reduce unemployment has led the government to kick-start a job creation program by copying an existing, but smaller-scale model, with the result that the program is moving forward without taking stock of past lessons and current realities. END SUMMARY.

WHAT IS MOUKAWALATI?

¶2. (U) Launched in July 2006, Moukawalati (Arabic for 'My Business') is a government initiative to create jobs by helping educated, unemployed individuals start small enterprises. Its goal is to create 30,000 small businesses by 2008. Since each enterprise must employ a minimum of two people, the program hopes to generate at least 60,000 new jobs, and ideally would like to reach 90,000. Moukawalati satellite offices, or 'windows,' have opened in nearly 50 locations across the country.

¶3. (U) The Moukawalati program offers up to almost USD 30,000 for entrepreneurs to start their own businesses. The state offers several benefits to program participants. It offsets limited expenses of up to USD 11100. It grants an advance in the form of an interest-free loan for up to 10 percent of the project's cost, with a USD 1700 limit, reimbursable in six years with a three year deferment. And, it guarantees 85 percent of the bank

credit needed to launch a project.

WHO RUNS MOUKAWALATI?

¶4. (U) While Moukawalati is a government program, it relies on numerous institutions to carry it out. Depending on where you are, Moukawalati 'windows' may be located at a local Chamber of Commerce, Industry and Services (CCIS), a microcredit organization, a local branch of the Office of Professional Training and Job Promotion (OFPPT), or even a university. The satellite offices have been tasked with collecting project proposals and, sometimes, prescreening them to determine which ones to send to the regional selection committee, based out of a Regional Investment Center (CRI). The National Agency for the Promotion of Employment (ANAPEC) centralizes project dossiers once they have been approved, and releases state funds. Certain organizations provide training to approved applicants. Zakoura, for example, is one of Morocco's largest microcredit associations, and has become a Moukawalati partner to provide training to fledgling entrepreneurs. Banks are expected to assist with financing.

IMPLEMENTATION ISSUES

¶5. (U) Moukawalati has been slow to get off the ground since its launch over six months ago. To begin with, banks have not stepped up to the plate as the government had expected. An article in La Vie Eco at the end of 2006 suggests that personnel at regional branches are

not as concerned with the program as decision-makers at headquarters, so that while bank higher-ups may have proffered their support, branches are not making good on the promise. In addition, banks have not instituted information systems for Moukawalati dossiers as quickly as they were supposed to.

¶6. (U) Perhaps the biggest reason banks have not offered credit to Moukawalati participants in large volume is that risk, lower profit margins, and elaborate follow-up make such a proposition unappealing. Nevertheless, they recognize that providing investment credit to new businesses is vital to Morocco's growth, and may be worthwhile. They are now examining options that provide guarantees and help restructure debt through mechanisms such as the Central Guarantee Fund (CCG).

¶7. (U) At the same time, several banks have started their own initiatives to provide investment credit for business creation, independent of Moukawalati. Banque Populaire, for example, offers a package called Business Project that charges only 5.5 percent interest on credit, supposedly the lowest on the market.

Attijariwafa Bank also has a program, structured so that financing and interest rates depend on the size and nature of client activities, allowing for better risk management. In general, banks would be more inclined to loan money to small projects if better risk management tools existed in Morocco.

¶8. (C) The state's expectation that microcredit organizations participate in the Moukawalati initiative may also complicate implementation. According to Rida Lamrini, President of the National Federation of Microcredit Associations (FNAM), microcredit is not designed to finance start-ups. Instead, microcredit organizations typically grant small loans, which increase in amount only once borrowers establish credibility. Lamrini distinguishes between fighting poverty and creating jobs, and contends that microfinance targets the former, while Moukawalati and banks engage in the latter. Microcredit organizations

such as Zakoura may serve as Moukawalati satellite offices in some locations and provide training to entrepreneurs, but Lamrini believes their fundamental mission is income generation, not job creation. In a recent article on Moukawalati in *Le Journal*, Moncef Kettani, President of the Moroccan Union of Small and Medium-Sized Enterprises, echoes Lamrini's point, noting that the government relies too heavily on microcredit organizations rather than ones such as his that have more relevant experience granting credit to young investors.

PROSPECTS FOR SUCCESS

¶19. (C) Skepticism abounds about whether Moukawalati will be successful. While the GOM consulted some of the larger microfinance organizations before implementing its program, it did not involve FNAM, the microcredit federation. (Lamrini says he is glad about this, since what he hears about the program is not encouraging). In an article in *Telquel* printed soon after the program's launch, Hamad Kessal, former President of the Federation of Small and Medium-sized Enterprises, cautioned that there is more to the problem than simply giving the inexperienced a chance. He notes that in the current business environment, start-ups have neither the means nor the resources to wait for payment or invest in expanding. He puts the imperative on the government to institute mechanisms that help businesses manage risk and access capital for growth. He also sees a role for large, established companies and professional associations, which can draw upon their sector expertise to help evaluate projects and mentor new entrepreneurs. The President of the Confederation of Moroccan Enterprises (CGEM), Moulay Hafid Elalamy, shares this view, and has emphasized the need for large companies to do their part in cultivating innovative, new ventures.

¶10. (U) Skepticism regarding Moukawalati's prospects for success also stems from uncertainty about program design. A similar program for young investors in the nineties had a high failure rate and raised the ire of many banks when borrowers defaulted on loans. According to survey results published in February's issue of *Economie et Entreprises*, 47 percent of respondents associate Moukawalati with the failure of this previous program.

¶11. (C) According to Abdelhak Marsli, Secretary General of Banque Populaire's Foundation for the Creation of Enterprise, the government essentially borrowed the Foundation's business creation model to create Moukawalati. While this may have been expedient, the program run by the Banque Populaire Foundation is small and selective, with detailed follow-up and record-keeping at a level that may be hard for Moukawalati to replicate, given its much larger target group. A contact who works in the financial services sector expressed precisely this concern, saying that he doubted Moukawalati could offer sufficient follow up to improve the odds of success.

¶12. (C) COMMENT: Strong pressure from the GOM to reduce high rates of unemployment appears to be propelling Moukawalati forward without regard to the varied concerns surrounding it. As skeptics such as Kettani indicate, the GOM needs to review the program and the mistakes of the past before rushing head first into full-scale promotion. In addition, the government seems to expect buy-in from a broad spectrum of players, which it has yet to get in full. Nonetheless, the program is still in its early stages, and the lag in approval of many applications offers it time to learn from its mistakes. Planned technical assistance from a number of international donors should also contribute to that effort. END COMMENT.

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